

VZCZCXRO6363  
PP RUEHFL RUEHNP  
DE RUEHRO #3228/01 3390947  
ZNR UUUUU ZZH  
P 050947Z DEC 06  
FM AMEMBASSY ROME  
TO RUEHC/SECSTATE WASHDC PRIORITY 6654  
INFO RUEHFL/AMCONSUL FLORENCE PRIORITY 1934  
RUEHMIL/AMCONSUL MILAN PRIORITY 8027  
RUEHNP/AMCONSUL NAPLES PRIORITY 2068  
RUCPDOG/USDOC WASHDC PRIORITY

UNCLAS SECTION 01 OF 02 ROME 003228

SIPDIS

SIPDIS

DEPARTMENT FOR EB/TPP/ABT THOMAS LERSTEN  
DEPARTMENT PASS TO USTR ABIOLA HAYLIGER  
COMMERCE FOR ITA/OTEXA MARIA D'ANDREA

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [KTEX](#) [CH](#) [IT](#)

SUBJECT: ITALY: APPAREL AND TEXTILES STATISTICS AND  
PROJECTION OF FUTURE COMPETITIVENESS

REF: STATE 138090

Summary

1. The textile and apparel industries are a small, but high-profile, part of Italy's industrial base. Although textiles and apparel accounted for only nine percent of industrial production and eleven percent of Italy's total exports and imports in 2005, names such as Dolce and Gabbana, Versace, and Valentino are synonymous world-wide with "Made in Italy." Despite widespread name recognition and a reputation for high-quality products, the Italian textile and apparel industries face mounting competition from low-cost manufacturers, especially from China, and a continuing flow of counterfeit goods. At this time, it is unclear whether the Italian textile and apparel industries can rise to the challenge of foreign competition, or if high labor costs and labor market rigidities, low productivity, minimal research and development and innovation, and stifling bureaucracy associated with doing business in Italy will mean a continued decline of these industries. End summary.

2. Italy is the largest EU manufacturer of textiles and apparel, accounting for almost a quarter of total EU textiles and apparel production. In fiscal year 2005, Italian industrial production was valued at 333.8 billion dollars. Textiles and apparel products made up 51.3 billion dollars (15.4 percent) of Italy's total industrial production, and nine percent of Italy's total exports. Of the 32.3 billion dollars of textile and apparel goods exported in 2005, 2.4 billion dollars (7.4 percent) was exported to the United States. In the first half of 2006, 1.05 billion dollars of textiles and apparel was exported from Italy to the United States, 6.5 percent of Italy's total textiles and apparel exports. The textile and apparel industries employ 573,500 people, twelve percent of the 4.8 million people employed by Italian manufacturers.

The Impact of Chinese Imports

3. Italian apparel and textile manufacturers face increasing competition from low-cost manufacturers in Asia, especially China. The Italian Trade Ministry reports Italy's apparel and textiles output dropped 11.5 percent 2004-2005, due to the EU decision in 2005 to open EU markets to textiles and apparel from China. In the first nine months of 2006, textile and apparel sector production was down 3.1 percent over the same period in 2005. As for external (trade) accounts, Italian imports of Chinese textiles and apparel

increased from one billion euros in the first half of 2004 to 1.64 billion euros in the same period in 2006.

¶4. Since 2005, the value of Chinese apparel and textiles exports to the EU has increased 41 percent, with some sectors (T-shirts, sweaters, women's clothing, and trousers) registering increases of as much as 250 percent. While EU ceilings on the import of certain Chinese apparel and textile goods theoretically increase opportunities for the sale of Italian goods, Italian apparel and textiles exports to other EU countries have fallen consistently since 2000, probably because of increased imports from China.

¶5. While the textile and apparel industries continue to face a significant challenge from foreign manufacturers, the effects of foreign competition may be abating. During a recent visit to Modena, where the textile and apparel industries have a large presence, Consulate Florence officers learned textiles and apparel production in the first six months of 2006 was only 0.2 percent lower than production in the corresponding period of 2005. Over the same time period, sales increased 2.8 percent, exports decreased by only 0.4 percent, and employment increased 1.4 percent. Modena Confindustria, the Italian Industrialists Association, sees these figures as marking a turning point from previous years, more dramatic declines. Confindustria forecasts increased domestic sales in the second half of 2006.

#### Trade Policy

¶6. Italian trade policy is coordinated with other European Union members through the European Commission. The GOI has not implemented safeguards or other measures, but has worked

ROME 00003228 002 OF 002

with the EU to ensure that Chinese imports stay under the EU-China cap.

#### The Business Environment and Role of Labor

¶7. There is widespread recognition that Italian industry is not as competitive as it once was. The draft 2007 budget contains few measures to spur growth, and new taxes will add a hefty burden to business. In addition, the high national debt (106 percent of GDP at end 2005) and a high deficit (four percent of GDP in 2006) limit GOI discretionary spending. (Italy is obliged to keep its deficit/GDP ratio below three percent under the terms of agreement with the European Monetary Union, but has had difficulty doing so.)

¶8. The high cost of labor also hampers the competitiveness of Italy's textile and apparel industries. Skilled textiles workers in Italy earn as much as 25 dollars per hour, compared to wages in China of as low as one dollar per hour. Italy's strong unions make it highly unlikely Italian wages will decline soon, though the GOI may announce plans to reduce social security contributions, a step to lower labor costs and raise take-home pay. The GOI, workers, and unions are discussing new measures to raise labor competitiveness, including lowering the cost of labor, increasing flexibility of work hours, reducing bureaucratic hurdles to investment, promoting research and development, and raising the retirement age. Some speculate the future of the Italian textile and apparel industries lies in the high-end of the market, where Italian firms can charge a premium for brand names, innovative fabrics, and design.

#### Looking to the Future

¶9. Political/business leaders in Modena and Prato told Consulate Florence officers the future of the textile and apparels industries lies in improved quality, not in price competition with foreign producers. The textile and apparel

industries' lobbying efforts reflect this, and focus on urging the government to increase customs controls to reduce unfair competition from China, including counterfeiting, and urging the EU to introduce improved labeling, indicating clearly the real geographical origin of a product, as well as stiffening penalties for false labeling.

SPOGLI